

**FACULTY OF BUSINESS**

# **THE FUTURE OF THE SMALL FIRM IN THE UK ECONOMY**

**The third Midland Bank Small Business Lecture**

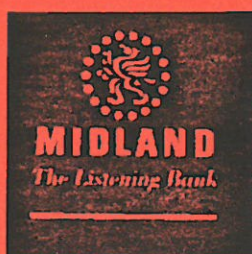
**Delivered at Kingston University**

**by**

**ROBERT BLACKBURN**

**on**

**Thursday 4th July 1996**



**KINGSTON**  
UNIVERSITY





Since the future has not yet happened, futurology must to some extent rely on the imagination. (Füredi, 1996:1556)

Nor has power passed to the classical entrepreneur - the individual who once used his access to capital to bring it into combination with the other factors of production. He is a diminishing figure in the industrial systems. Apart from access to capital, his principal qualifications were imagination, capacity for decision and courage in risking money including, not infrequently, his own. None of these qualifications are especially important for organising intelligence or effective in competing with it. (Galbraith, 1972:73-4)

The persistence of small-scale enterprise ... preserves an image of competition, the market and opportunity behind which the growing domination of large scale monopoly enterprises is concealed. (Scase and Goffee, 1986:141)

Now it is the big firms that are shrinking and small ones that are on the rise. The trend is unmistakable - and business men and policymakers will ignore it at their peril. (The Economist, April 1993)

Announcements of the demise of concentrated economic power in the form of the large, resourceful, multidivisional, multiproduct, multiregional, often multinational corporation are premature. (Harrison, 1994a:8)





## **The Future of the Small Firm in the UK Economy**

### **Introduction: Small Firms Revival - Blip or Long Term Trend?**

Interest in the future of small scale enterprise<sup>1</sup> derives from a variety of sources. Academics from a range of disciplines have expressed an interest. Economists, sociologists, geographers and political scientists have attempted to understand the role of smaller businesses in society, their contribution to economic growth and the development of market economies more broadly. Governments have also expressed an interest in the role of smaller firms, as a means of economic growth, job generation, innovation, flexibility and a route to self-expression by the labour force. The latest Competitiveness White Paper, for example, places a great emphasis on the role of enterprise and small firms in making the UK economy "the enterprise centre of Europe" (HMSO, 1996:22-23). Corporate sector analysts also have given some attention to the fortunes of smaller firms, viewing them as potential markets for goods and services, or ways of developing their own activities through strategic alliances or supply chains.<sup>2</sup>

Yet despite interest from various quarters, attempts to assess the future of smaller firms have, on the whole, tended to be a partial or even trivial activity. There have been only a few attempts at understanding and predicting the future of small firms from small business researchers themselves (See e.g. Curran and Blackburn, 1990; 1991). More recent evaluations have tended to offer unsubstantiated assertions based on little systematic thinking and research, instead relying on anecdote and prescription (eg. Ragab, 1991; Fuller, 1996).

Of course, 'researching' the future is a fine art, and involves taking on certain assumptions or even leaps of faith! But the renaissance and renewed significance of smaller firms in the economy does provide an agenda for evaluating the future of the smaller firm. For example, one fundamental

question is to what extent is the revival in the fortunes of smaller firms a long-term paradigmatic shift or a mere blip in an inexorable trend towards the concentration of ownership?<sup>3</sup>

In this lecture I will address this issue by focusing on a range of socio-economic factors. Because of the trade-off between scope and depth in any investigation, to facilitate depth of analysis, I will focus on a limited number of factors including:

- aggregate econometric projections on employment and self-employment activity

- projected changes in demographics

- attitudes to business ownership and responses to changes in work opportunities

- corporate sector organisation, disorganisation and the effects on smaller firms

- monoculture or polyculture and the effects of changes in cultural and consumer tastes

- politics and the institutional environment

I start this lecture with trepidation. Consensus among futurologists is that society, institutions and human relations are becoming increasingly complex and there is a growing potential for the development of the unexpected (Füredi, 1996).

The complexity of the issues influencing the future role of smaller firms in the economy cannot be overstated and much grander previous assessments have in time proven wrong. Writing 25 years ago, the Bolton Committee, the last major government enquiry on small firms, was unqualified in its scepticism about the future of small business:

- "... the contribution of the small firm to national output and employment is declining in the long term not only in this country but in all the other developed countries ... The number of small firms in existence in the United Kingdom is also decreasing ... Behind these statistics lie a number of factors which amount to an increasingly hostile environment for



the small firm. Indeed, we have found it extremely difficult to identify any factors working strongly in favour of the small firm. (Bolton Report, 1971:75) (Emphasis in the original).

Undoubtedly, in the period into the next century we will witness significant unforeseen events which will cause havoc on forecasts, particularly of a statistical nature. For example, since the Bolton Report, the deflationary and inflationary effects of the quadrupling of oil prices in the 1970s and more recently the liberalisation of Eastern Europe states, were unforeseen events which have influenced planners to alter their forecasts and the reality of the economy in which small firms are situated.

### **Aggregate Projections in Small Business and Self-Employment Activity: A Continuation of Recent Trends**

A number of projections have been offered about the future size of the employee (that is those who work for others) and the self-employed population in the labour force. At Warwick University, the Institute for Employment Research (IER) provides a picture of an improved macro economy to 2001, within which self-employment will prosper (IER, 1995). Research on the explanation for the rise of smaller firm has placed great weight on shifts in the sectoral composition of the economy (Curran, 1996). Thus, it is important to examine the projections in the employment structure of the economy.

The IER's analysis of employment change provides some interesting sector changes within the aggregate (Table 1). The bulk of the primary and manufacturing sectors are projected to lose something in the region of 126,000 and 200,000 jobs respectively whilst services as a whole will continue to expand by 1.3m jobs. What is significant about the sector analysis is that the projected growth sectors for the economy as a whole tend to be those in which smaller firms and the self-employed are concentrated (Table 2).<sup>4</sup> As a result, an additional 440,000 self-employed persons are projected between 1994 and 2001, a rise of 13 per cent, which means that self-employment will represent almost 14 per cent of all employment (Table 2).

In manufacturing, the expected continuation in decline in employment is due to productivity increases, work re-organisation and international competitiveness. Only one in 10 smaller firms are in manufacturing (DTI, 1995) and so the substantial pressures felt in the sector will not affect the bulk of smaller firms.

In contrast, employment in the service sector is projected to expand, in line with the shift in the pattern for goods and services and the relatively slow rate of productivity growth. This is very significant for assessing the future of smaller firms because seven out of 10 smaller firms operate in these sectors (Curran and Blackburn, 1994). The only sub-sector in services where self-employment is projected to remain static while employment as a whole expands, is distribution, hotels and transport reflecting the economies of scale thought to be achievable in these sectors.<sup>5</sup> Self-employment gains in other professional services including legal services, leisure, recreation and tourism will also have a major positive effect on self-employment overall (Table 3).

Of course, these are projections about self-employment and this group is treated here as a surrogate for small businesses as a whole.<sup>6</sup> What comes out of the analysis is that despite the huge growth in self-employment in the last 20 years, economists are projecting further growth.<sup>7</sup> Their results also highlight projected variations in self-employment according to business sector, reinforcing the notion of a heterogeneous small firms population.

These aggregate projections are based on a model of the economy and a set of assumptions. As with most forecasts, they will most probably be inaccurate. An analysis of 34 forecasting models recently found that they tended to understate changes in the economy (Kay, 1995). I would not therefore put too much emphasis on their exactitude but more on the general structural pointers of change in the economic activity of the self-employed, projections which I find acceptable. They provide little understanding, however, on the forces shaping the future patterns of small scale enterprise,



including other structural and agency factors, or the effects and impact on the economy and wider society. Overall, however, the analysis suggests continuation of the shift towards small scale enterprise.

### **The Demographic Dimension: A Mixture of Fortunes**

Integral to understanding what will happen to smaller businesses as we enter the 21st-Century, is the likely effects of changes in the composition of the work population including its size, gender and age distribution. Changes in the profile of the labour force will have implications both for small firms as employers and for the potential supply of new business owners. Set against such changes will be the intervening effects of the growth in Gross Domestic Product (GDP) and the resulting changes on the demand for labour by corporate sector employers.

Authoritative projections about the labour force are provided by Government.<sup>8</sup> Here I will summarise some key projections from Ellison et al., 1996. Latest estimates of the labour force suggest that it is projected to rise by 1.5m from 27.7m in 1995 to 29.7m by the year 2006 (Ellison et al., 1996). Of this rise, 1.1m is accounted for by women, and women are projected to become 45 per cent of the total labour force, 1.5 percentage points more than in 1995. The labour force of 2006 will also be older. There is a projected rise of 2.7m people aged 35 and over in contrast to a fall of 1.2m people aged under 35. Economic activity rates for women are projected to increase, with largest increases in the 25 to 34, 45 to 54 and 60 to 64 age groups. For men, activity rates are expected to fall although slight increases are indicated for 35 to 44 and 65 to 69 year olds.<sup>9</sup>

To these basic projections need adding the rise in educational qualifications of younger people. The proportions of people entering higher education has risen from one in eight in 1979 to almost one in three in 1994/1995 and

current projections are that this participation rate will continue in the short term (Department for Education and Employment, 1996:Ch5).

### Effects on Supply of Business Owners

The likely effects of these changes on the supply of potential business owners are strongly positive (Figure 1). Research has shown that there has been an 'age launch window' for business entry, spanning the 35-44 age group.<sup>10</sup> This group will have accumulated some savings, have work if not managerial experience, and will probably be house owners: some of the necessary ingredients for entry into business ownership. Thus, the projected increase in the 35+ age band of 2.7m will increase that proportion of the labour force which historically are most likely to start a business substantially.

Within this broad framework, the bias towards females in this age group 'at risk' of starting a business, suggests that female entrepreneurship has considerable potential for expansion. Whether or not females will want to enter business ownership and whether they are able to are other matters. Evidence suggests that there has been a growth in female business ownership in the last decade (Allen and Truman, 1991). Yet, there is also some evidence to indicate that the infrastructure for female run businesses is lacking and that they tend to start businesses that are relatively undercapitalised (Ross et al., 1994). On balance, I would argue that there will be a growth in female businesses in the next decade, not only because of the sheer statistical weight of numbers, but because of a growing acceptance by support providers and financiers that they can run businesses.

The rise in the educational qualifications of the young together with the move towards student loans and away from grants, have rather more complex implications for the supply of entrepreneurs. It has to be remembered that the young have tended to have relatively low rates of business entry and high rates of exit (Daly, 1991) and so any changes here will be relatively minor in terms



of the overall population of smaller firms. However, the projected fall in the number of young people entering the labour market and their likelihood of having to pay off a student loan once in the labour market will lead to a fall in the number of young business owners.

The above has to be set against the positive relationship between education levels, business survival and growth (Storey, 1994) and probably less important, the effects of initiatives aimed at promoting young enterprise, including Enterprise in Higher Education (DfEE, 1996:Ch5). Thus, although I am arguing that there will be an overall net fall in the number of young people entering business ownership, those who do (and pass the initial 'death valley' two year period of business survival) will have established businesses with much a greater survival and performance rates.<sup>11</sup>

#### Effects on the Supply of the Labour Force to Small Firms

The effects of the projected demographic trends on the supply of labour to smaller firms will however be less favourable. Research has shown that smaller firms tend to employ younger, less qualified and female staff compared with the corporate sector (Storey, 1994). The growth in the educational qualifications of the workforce and numerical decline in younger people represent a drying-up of a major source of staff in smaller firms. Instead employers will be faced with a growth in the willingness of young people to work part-time, as they fit this in with their full-time studies.

One redeeming feature of the projections for employers is the rise in the proportion of females in the labour force and their growing activity rates. These tend to suit the needs of small businesses especially those in the service sector where small businesses are dominant.

Of course, the above relationships are not purely statistical and other demand and supply-side factors impinge on the analysis. Most notable are the

recruitment behaviour of the corporate sector, levels of unemployment, the impact of any net growth in immigration (for example from Hong Kong or Eastern Europe) and the rationalisation of the armed forces. The effects of net immigration would, on past observation, produce an influx of new entrepreneurs. An Home Office study of recent immigrants found that nearly a half had further or higher educational qualifications, over a third a degree (compared with 12 per cent in Britain) and they tend to be more often self-employed than British born workers (16 per cent compared with 12 per cent) (See The Economist, May 1996).

A major upturn in the economy is most likely to be accompanied by jobless growth and it is unlikely that, at the aggregate level, there will be a shortage of labour. For example, the IER (1995) project that although there will be modest growth in GDP the economy of under three per cent to 2001, unemployment is expected to remain at about two million. There are, however, more apocalyptical views suggesting a rise in unemployment. For example, Rifkin (1994) suggest that the rise of the 'information age' with new software technologies, will lead to a decimation in employment levels. Although his vision may be somewhat overstated, I would agree with others (e.g. Mayo, 1996) that any expansion in economic activity will not reduce substantially the current levels of unemployment in the medium term. As a result, I would argue that the effects of changes in the characteristics and size of the future labour force will have a neutral impact on smaller employers. The overall picture of the effects of these demographic changes are shown in Figure 1.

### **Attitudes to Business Ownership and Responses to Changes in Work Patterns**

Although basic demographics suggest a profile of a population which is, on balance, more conducive to business ownership, a central question is are members of the future workforce more or less likely to want to run a



business? After all, starting a business is not easy (Bevan et al., 1989) and small business failure rates are high. A recent study found that less than 20 per cent of new bank business accounts survive after six years (Cressy and Storey, 1995) a figure which I would argue is likely to be higher if those businesses without bank accounts are included because of their relatively small size and newness. Although the characteristics of the population may be more conducive to business ownership based on past observation, employee jobs may be more attractive. I would like to focus on the role of a new enterprise culture, future changes in work patterns and the relative attractiveness of employee jobs compared with running a business.

### A New Enterprise Culture?

The term 'enterprise culture' became a slogan in the last decade linked in some way to the huge economic and social restructuring that has taken place in Britain (e.g. Burrows, 1991). It is important to examine the relevance of the concept in this scenario exercise. If the shift towards smaller firms is to have some relative permanence then it must be rooted in the beliefs, norms and aspirations of the working population. However, the 'enterprise culture' for all the rhetoric, remains an extremely vague concept and analysing causality between culture and economic structure is complex. I am defining 'culture' here as the mental norms, beliefs and attitudes of the population. The term 'enterprise' is equally vague but here I will refer to it as expressions of hard work, thrift and the ability to seize opportunities.

Research on the enterprise culture and its relation to small business ownership has proved to be problematic, with a reliance on surveys of business owners themselves and the career aspirations of young people and the working population. Methodological problems aside, a consensus among academic writers seem to indicate that there is little evidence of an enterprise culture as a motivating force for business entry (See Curran, 1996). In other words, people start a business for many reasons. Further, studies allowing some

time-series comparison on the attitudes of adult members of the population to the enterprise culture, found little change in the attractiveness of self-employment (Blanchflower and Oswald, 1990). Instead, the term enterprise culture is probably seen as an agent-centred means of explaining away the massive restructuring that has taken place in economy and society (Burrows, 1991).

If we take a different perspective, ignoring the slogan the 'enterprise culture', there are patches of evidence which suggest that there has been an arousal of interest in business ownership in the last decade. A survey of young people, the essence of the future labour force, found that a quarter thought it likely that they would run a business of their own. While this cannot be taken as a indicator with any accuracy of what they will actually do, what the study revealed was the high levels of awareness by young people of the ups and downs of business ownership (Curran and Blackburn, 1991).

A related factor here is some, albeit sector specific, evidence that once in business for whatever reason, people can become converted to the idea of business ownership as a longer term career. A study of freelance workers in the book publishing industry found that because of changes in the structure of the industry and a contraction of direct employment some people entered self-employment reluctantly. However, once in business for themselves they became 'converts' and changed their work attachments to self-employment (Granger et al., 1995). Thus, I would agree with the authors of this study that:

'This suggests a process of socialisation, in which both previous employment *and* self-employment work experience encouraged the development of an 'entrepreneurial ideology'. (Granger et al., 1995:511). (Emphasis in original)

Other evidence helps expand the point with the finding that experience of self-employment affects positively later moves into self-employment (Carroll and Mosakowski, 1987). However, to argue that this is a manifestation of a new enterprise culture in the UK involves a leap of imagination that is beyond my

capability. People can become converted to the idea of business ownership, but only once they have experienced running their own business.

### Working Patterns and an Increasing Heterogeneity of Small Firms

To these supply-side demographic changes need adding the broader changes in patterns of employment and especially changes in the relative attractiveness of business ownership compared with working for somebody else. The implications of these wide structural changes suggest that there will be an increasing heterogeneity of small enterprise. Research by the Kingston University's Small Business Research Centre has emphasised the great variety of small businesses despite their common size (e.g. Curran and Blackburn, 1994). I would argue that the changes in the economy in the future will broaden even further in terms of the types of business in operation, and especially in the diversity of the fortunes of those running the business.

Recent evidence has shown that there are very wide differences in earnings of the self-employed with an over-representation of the self-employed in both the top and bottom 10 per cent of earners (Meager et al., 1996). Indeed, many of those in self-employment are in low-wage sectors sometimes acting as quasi-employees. To this strata of self-employed are those that Rifkin (1994) discusses. His view of the future economy envisages that new employment opportunities are only likely in the knowledge-based sector comprising a small elite of entrepreneurs, including scientists, technicians, computer programmes, professionals, educators and consultants.

Undoubtedly, the world of work will be increasingly insecure (Rosewall, 1996). This may, paradoxically, lead to a greater interest in running a business as a career alternative. One response to growing employee insecurity may be that the risk averse may choose to work for themselves rather than experience further poor quality employee jobs. Evidence on this is, as yet, hard to come by. However, a recent study found that, after a period of long



term unemployment, the stability of self-employment was greater than full-time jobs during 1990-92 and entrants to self-employment expressed more risk averse attitudes (Bryson and White, 1995, cited in White, 1996).

The whole notion of a change in the structure of employment away from jobs for life towards more short term periods of employment where individuals have a portfolio of work has achieved widespread currency in the literature and popularised by management gurus (e.g. Handy, 1994). From the research evidence available, I would agree that there will be a rise in such work styles and, even though they may be attributed to corporate sector 'downsizing' or unemployment, self-employment and business ownership can become habitual.

Overall, I am arguing that there will be an expansion in the routes to business ownership and the variety of businesses. Some will be based on lifestyle choices, some on more conventional patterns and others due to the lack of good employee opportunities. These factors will lead us to make any generalisations on small businesses even more carefully in our research findings and public and private policies.

#### Positive Effects of Intergenerational Inheritance

A final aspect to this scenario of a growing acceptance of business ownership as a career by the working population, is the impact of intergenerational inheritance. There is a strong positive relationship between parents who run a business and the likelihood of their offspring running a business (Stanworth et al., 1989). I would like to speculate therefore that the growing ranks of business owners witnessed over the last two decades will lead to a further new generation of people equipped with the cultural capital necessary for running a business, to create a wave of business owners in the early 21st-Century. Added to the above favourable changes in demographics discussed earlier, these changes in the attitudes to work presents very powerful reasons for an expected rise in small business activity.

Overall, therefore, while I dismiss the existence of a new enterprise culture in the future, I would like to argue that there is very much an awareness and acceptance of business ownership as a career alternative. Coupled with an intergenerational inheritance effect, the evidence here leads me to conclude that a larger proportion of the working population will be seeking self-employment than we have seen in the past. The experiences of these new breed of business owners will be much broader than we have seen in the past in terms of both their work history and forms of engagement in running a business.

### **Corporate Sector Organization, Disorganization and the Effects on Small Firms**

One of the reasons for the revival in small businesses over the last 20 years has been the restructuring of the corporate sector. It has been argued that we have entered a period of 'disorganized capitalism' in which small firms benefit from the fragmentation of culture, consumption and production (Lash and Urry, 1987). In the production sphere, this has been manifested in a decline in Fordist techniques towards Post-Fordist methods involving downsizing, contracting-out, a growth in functional and numerical flexibility of the workforce and a concentration on 'core' activities (See Blackburn, 1991). Obviously these activities have affected the size and characteristics of the small business population. Yet, debate still rages on the actual processes involved and the precise effects on smaller businesses.<sup>12</sup>

As far as future trends go in assessing the longevity of the small business revival, we need to ask where does power in the economy lie? In answering this, there are two competing schools of thought. The first, the 'contracting-out school' argues that the corporate sector remains in command of the economy and has become 'lean and mean' (Harrison 1994a; 1994b). Briefly, Harrison's thesis argues that the new production paradigm involves concentration without centralization and while production has become

decentralized, this "... does not imply the end of unequal economic *power* among firms" (1994b:42) (Emphasis in the original). The corporate sector is able to do this for example through the development of strategic alliances and the computerization of information systems and as a result "... have found a way to remain at center of the world stage" (1994b:145).

Although Harrison does not address the future for small firms explicitly, I would argue that the implications of this thesis present small firms in a subordinate role. If power lies in the hands of the corporate sector, future management fashions may dictate a renewed vertical and horizontal production and service regime in which smaller firms may become a casualty. Overall the future of small firms in this scenario is uncertain (Figure 2).

A second school of thought stresses the inability of mass production techniques to meet the increasingly individualistic and differentiated patterns of consumption and the growth in 'flexible specialization' as the new production paradigm (Piore and Sabel, 1989; Hirst and Zeitlin, 1989; Sabel, 1989). Centre stage in this model is the small, flexible, firm working in an 'industrial district', utilising a renewed craft tradition, which allows an economic version of David and Goliath to take place. This model of the economy is extremely attractive, having echoes of a previous era of capitalism.

While evidence on both models can be found (See Blackburn, 1991; Curran and Blackburn, 1994) and is put forward vehemently by the proponents, I would like to argue that both processes may exist in different parts of the economy. There is, for example, evidence on contracting-out and the development of links between larger firms and smaller satellite businesses. Some of these relations are not new, such as in the clothing industry (Rainnie, 1989). Other examples fail to actually track the recipients of the work contracted out and therefore should have little to say about its relationship with the revival of smaller firms - a weakness in some research designs



(Blackburn, 1991). Moreover, power relations may be uneven but in some cases this may be vested with the small, specialist sub-contractor who can charge the large, blue-chip multi-national exorbitant consultancy rates because of the absence of any in-house capacity or alternative expertise in the rush to downsize. To this also needs to be added the reluctance of small business owners and large firm executives to do business with each other (Curran and Blackburn, 1994). Thus, while I can accept some of the Harrison thesis, it does tend to make small business owners appear passive, with few strategies of their own and overlooks the vast sectoral differences in the relations between large and small firms.

The application of the 'flexible specialization' model of the UK economy also has its weaknesses. In the UK there is an absence of evidence on this and certain aspects of the notion of 'industrial districts' re-emerging in 21st Britain seems like fantasy.<sup>13</sup> I would prefer to switch attention to a broader view of small firm - large firm relations. One common theme which helps in understanding the future of the smaller firms is that where product and/or process market turbulence exists smaller firms appear to thrive. Probably the most appropriate contemporary example of truly independent businesses thriving, carving out their own market segments and in some cases placing larger organisations into a dependency situation, is in computer services including software and consultancy (Howells, 1996). The rapid rise in these firms in the last decade illustrates aspects of both the 'flexible specialization' model and the contracting-out schools of thought.

Howells (1996:10-11) argues that the 'externalisation' of work is a key process in the development of the industry. Outsourcing, however, has been subject to question more recently and in some instances work has been brought back 'in-house' and although contract work remains a key element of the sector, it illustrates Harrison's thesis. However, Howells argues that although externalisation is important in the formation and restructuring of the sector, "... more straightforward new firm formation processes also remain

significant" (p13) and a few new computer firms can have a rapid growth trajectory. The formation rates in this sector were formidable in the late 1980s: the stock of businesses registered for VAT growing by 123 per cent between 1985-1990 (18198 businesses) and 93 per cent have turnovers of less than £0.1 (Keeble et al., 1994).

Keeble et al. (1994) crystallise the role of these firms:

"... they offer specialised and customised professional expertise, and possess inherent and organised flexibility through associates and their co-operative networks. ... the significant role and competitive success of many smaller consultancy enterprises is likely to continue during the 1990s". (Keeble et al., 1994:14)

I would agree with the authors, with the exception in the rise in international competition which is facilitated by the technology itself.

I would argue that as we enter the next century, there will be no tightening of the corporate reins on the economy in the sense of bringing production back in-house with a few exceptions when problems over quality and the pacing of work emerge. Downsizing, it seems is here to stay or has stabilised for the medium term at least. There is evidence, however, that opportunities to become involved in contract work will decline in the next decade because of a trend towards the rationalization of suppliers. It is reported, for example, that Ford wants to reduce its 1600 suppliers to 200 (e.g. Economist, June 1996). The criteria for the rationalization of suppliers is often based on quality and cost criteria, and in this process smaller firms will suffer because of their lack of formalised quality standards such as BS5750/ISO 9000 (Curran and Blackburn, 1994; North et al., 1995).

However, it has to be remembered that the bulk of small firms are not sub-contractors to large firms that the reasons for the revival in small firms is not mainly attributable to downsizing (Carroll, 1994). A re-think in the contracting strategies of the corporate sector must therefore be kept into perspective. The constant introduction of new computer-based technologies

and their growing ubiquity in society represents opportunities for smaller firms akin to a creative gale of destruction (Schumpeter, 1934). These will abound particularly in the adaptation of existing technologies to new products and services. I would argue that these new markets will lead to such a rise in smaller firms that they will swamp any negative effects of a reduction in contracting-out or manoeuvring by the corporate giants in the way they organise work.

### **Monoculture or Polyculture? The Effects of Changes in Cultural and Consumer Tastes on Smaller Firms**

A major driving force which will influence the future of smaller firms is the changing nature of consumption patterns and culture. Some argue that we have entered a society in which culture is becoming increasingly fragmented, a polyculture, and there is a growing demand for non-standardized goods and services and the development of niche markets. These patterns of consumption are akin to the features of a 'postmodern' society. Under such conditions the role of smaller firms in the economy would be greatly enhanced because of their ability to provide bespoke goods and services.

In contrast, others have argued that there is a growing globalisation of consumption patterns and adherence to global brands and service provision in an overall homogenisation of culture (Perlmutter, 1991). The latter is facilitated, in part, by the new supernational states such as the European Union which allow cross-border movements in labour and capital. Smaller firms, however, have hitherto not been major players in these new mass markets. Evidence from research in Britain shows that they have tended to avoid cross-border activity. If globalisation is the norm then smaller firms, with their 'local' rather than 'global' norms will suffer.

Assessing the strength of these two forces is not easy. However, I would like to argue that the forces towards globalisation and mono-culture have the upper



hand. Despite the particularly virulent forms of differing cultures for example expressed through nationalism or regionalism, the lived, material lives of people in different parts of the Western world are becoming more, not less, similar. One outcome of this is the acceptance of global brands which facilitates mass production and marketing. Smaller firms have retreated from manufacturing, which has now become a global activity, and in the service sector, smaller firms have been decimated in general retailing where standardised formats are most common. There are no indications that these patterns will be reversed in the next decade. Vast productivity gains in large manufacturing firms, the development of out of town shopping and a rise in franchising all suggest a move towards a homogenised rather than differentiated society.

However, the picture is not all bleak. Where smaller firms will benefit is in the move towards sectors requiring a 'personalised' service. For example in the leisure sector, independent high quality restaurants will continue to thrive because of the inability to mass produce such a concept, and with an ageing population there will be more opportunities in personal services.

Some commentators have argued that the shape of markets, and the development of niche markets especially, are a function of income levels and as well as lifestyles. I would argue that this tends to be overstated. The corporate sector can often produce goods and services en mass, while at the same time satisfy the appeal of the remaining tokens of individualism through positional goods. Moreover, given the growth in income inequalities in late 20th-Century Britain (Meadows, 1996), the new high income earners with 'bespoke' lifestyles represent only one dimension of consumption. On balance, then I would suggest that changes in culture are leading to consumption patterns which will close the doors of some small businesses.

## **Politics and the Institutional Environment: Minor Influences**

All firms have to work within an institutional environment. Since 1979 Britain has had a Conservative government which has been strong advocates of free-enterprise and small business. The government has introduced major policies to support small firms, including the development of a new infrastructure (through Training and Enterprise Councils and Business Links), financial assistance and advice bodies (Department of Trade and Industry, 1995). A central question here is what has been the effect of Government small business policies and what will happen if there is a Labour government in the next decade?

### A Change in Domestic Small Firms Policy - Little Impact

Evaluating the effectiveness of policy is not easy, but there is some question about the relationship between the growth in small firms witnessed in the last 20 years and government policy for small firms (e.g. Goss, 1991:Ch7). Storey (1994:Ch8) argues that small business policy remains a 'patchwork quilt' rather than having clearly defined objectives and targets and that the influence of the macro economic environment must not be overlooked.

I would argue that the rise in smaller firms during the last 20 years or so would have happened anyway because of the strength of non-government policy factors (See Curran , 1996). Moreover, smaller firms have frequently ignored government initiatives instead preferring to go it alone rather than accept advice or admit any weaknesses (Curran and Blackburn, 1994; MacMillan et al., 1990).

More recently, there has been a convergence in policies towards small businesses by the Conservatives and Labour. In the late 1970s, the Labour Party did not have a specific small firms policy as such and stressed a 'corporatist' approach to running the economy. For some the re-introduction

of corporatism was seen as the death knell for small scale activities (Bannock, 1990).<sup>14</sup> By the early 1990s, however, the Labour Party had come round to recognise the significance of smaller businesses in the economy.

"Our economic policy and industrial strategy will ... continue to help small firms get going. But the core of our approach will be to improve support for growing firms ... We will facilitate the establishment of small businesses by women ... (and) small businesses established by the ethnic minorities."  
(Labour Party, 1991:11).

A more recent commitment to legislation on late payment reinforces the seriousness with which the Labour Party is now taking small firms. Whether or not these are the appropriate policies, inspiring take-up by smaller firms, remains debateable. However, when set against the general resistance to take-up in government initiatives, it is clear that a change in government would be unlikely to have any major effects on the importance of smaller firms in the economy. Again it has to be emphasised that this is because of the lack of a connection between small firms and state policies. It is also debateable whether a national minimum wage will have a significant effect on small firms (Curran et al., 1994).

#### Minor Growth in Influence of the EU

A great deal has been written on the impacts of the European Union (EU) on business, its policies and the effects of the free movement of capital, labour and goods. The Cecchini report argued that the pre-1992 tariff barriers were particularly onerous for small and medium sized businesses (SMEs) because customs costs per consignment of exports could be 30 to 45 per cent higher than for larger firms (Cecchini, 1988:9). Writing in 1990, James Curran and I argued:

the most likely impact of 1992 on small firms in the 1990s will be minimal over the short term at least (1991:79).

Events during the past five years bear out this view.



The overwhelming majority of smaller firms are not involved in exporting and many have markets which are almost impregnable from an international perspective. Seven out of 10 small firms are in services, often with sales attuned to local markets, culture and tastes. Within these firms in the main consumption takes place at the point of purchase (a restaurant meal for example) and cannot therefore be exported or imported, unlike a manufactured good. It is no surprise, therefore, that business owners assessments of the impact of the removal of tariff barriers tend to suggest little or minimal effects on their business (e.g. Gray, 1992).

As time elapses, however, the effects of the EU on small firms in Britain are more likely to be felt. Although there is an absence of independent research on the impact of EU membership I would like to suggest that these can be clarified as market effects and regulation effects. In reality, the legislation and standards deriving from the EU are wide ranging and an assessment of their effects would involve a considerable exercise. There are many policies and initiatives, general (such as employment and environmental law) and sector specific (such initiatives on the information economy). Although at risk of being controversial, I would argue that as with national government policy the effects of these policies at the aggregate level are minimal but will become more important in time.

The market effects in terms of competition and opportunities from businesses in other EU states are also unlikely to have an effect on small firms. One analysis of a study of retailing concluded:

the removal of physical, technical and fiscal barriers within the EC ... will not remove the important cultural and socio-economic barriers ... (Alexander, 1990:186).

Yet I would like to argue that this argument has become somewhat dated, not because of the effects of the EU alone, but because of a wider globalisation. Thus, the main direct effects of membership of the EU will add to the points on globalisation discussed earlier. Overall this represents neither a major

constraint or opportunity for SMEs in the medium term. However, this is worth monitoring because of the complexity of the issue and the current absence of any independent research.

### **Conclusion: The Continued Rise in Small Firms**

It has been said elsewhere that many of the more publicised products of futurology have proved to be spectacularly inaccurate (Füredi, 1996). I have no intention to join these ranks! In this lecture I have covered a broad range of factors which will shape the future of smaller firms. Of course, I could have covered other important factors such as environmental issues, the relations between small firms and the future city but I am prevented by time and space constraints.

Overall, on the basis of the factors discussed, the future for the smaller firms appears remarkably positive and has implications for future research. An analysis of demographic changes suggest that there will be an expansion in the number of people in the 'age launch window' for business ownership. In particular, there will be a rise in the proportion of females within this 'window'. These demographic changes will also pose few problems for employers although the drying-up of the number of young people on the labour market will lead to some difficulties. A continuation of relatively high rates of unemployment, and the strong likelihood that any upturn in the economy will be accompanied with jobless growth, does mitigate the effects of a decline in the number of young people entering the labour force.

I would argue that the major reason for the revival of small firms is the shift towards the service sector in the economy. The projections, by the IER, that this shift will continue over the next decade will reinforce this revival. Small firms in personal services, business consultancy and computer services are, in particular, expected to expand while those in retailing to decline. The latter will be subjected to competition from more standardised forms of delivery,

larger firms reaping the benefits of economies of scale and the full effects of out-of-town shopping. It is also argued that consumers will become more culturally homogenous and attuned to global fashion and tastes, thus reinforcing the gloomy outlook for the independent retail sector.

If we add to this scenario the changing opportunities, attitudes and awareness of the working population, the agents of economic change, then the future of small enterprise appears expansive. In the 1990s we have witnessed a movement from the relative attractiveness of being an employee towards 'going-it alone'. The high rates of self-employment and business ownership in the 1980s and 1990s will have an 'intergenerational effect' by the early 21st-Century with an increase in members of the labour force whose parents ran a business.

Whether or not running a business will be preferable to being an employee, at the aggregate level, it is debateable. Yet I would argue strongly that there has been a raising in the awareness of business ownership as a career alternative. More people will enter business ownership because of a lack of alternatives and in some cases these will be marginal business activities. However, even those entering business for negative reasons may in time prefer that career route even if alternative employment opportunities arise. In sum, not only will there be a numerical rise in the proportion of people in the labour force likely to start a business, the raising of an awareness of business ownership as a career alternative, will lead to a rise in the proportion wanting and having to run a business. I would not, however, accept that this represents the emergence of a new enterprise culture but is a reaction by many in the labour force to a deterioration in their employment prospects.

Obviously, in this scenario the behaviour of the corporate giants, their product, process, organisation and employment strategies, cannot be ignored. Outsourcing of previously in-house work has led to an expansion in the self-employed and created small business opportunities although this relationship



has often been overstated in the literature. Thus, I would argue that even if we witness a reversal of 'downsizing', the effects on the small business population will not be substantial. What is more problematic for the small business population are the new forms of streamlined inter-firm relations emphasising bureaucratic procedures and quality approval through for example ISO 9000. The drive to reduce the number of suppliers will be a continuing trend into the next century and this will lead to a shrinkage in the connections with smaller businesses and relegation of some small businesses into a position sub or even sub-sub contractors.

Much has been written about the rising 'information economy' and the opportunities for small-scale enterprise. I have argued in this lecture that this provides a new rich view for small business activities. The rapidity of process, product and service change renders standardisation and homogenisation difficult to achieve. New technology and its relative fall in costs will become an ever increasing part of our lives. As a result, smaller firms will thrive in this area mainly in the application of the new technologies, and will constitute a major share of small-scale enterprise in the 21st century. Whether or not this will facilitate a new variety of business forms, relying on the new technologies for example to 'telework' and work from home, is in the medium term less clear, not least because of the psychological limits to working alone (Stanworth et al., 1993) and the reluctance of small businesses to invest in computers (Curran et al., 1994; Hepworth, 1994).

Changes in the institutional and political environment although often difficult to anticipate will have only a minor impact on small firms. Only a minor proportion of small firms receive any aid from the state and the bulk of businesses choose not to become involved. Even the introduction of legislation on late payment and a national minimum wage are, I would argue, unlikely to affect the bulk of smaller firms.

Overall the analysis presented in this lecture suggests a future environment which on balance will be most conducive to an expansion in small firms. The future small business population will be much more heterogenous reflecting not only the increasing divisions in society but also the increasing opportunities for business formation.

I would like to argue that the future for small firms over the next decade and into the next century is likely to be more prosperous than 10, or even 20, years ago. The research implications of this scenario are profound and while my colleagues and I have undertaken a great deal of work in this field, the future will offer a further rich vein of research areas.

I would like to thank my colleague James Curran for his comments on an earlier draft of this paper and David Blizzard and Stewart Fitchew for their research assistance. I would also like to thank Valerie Alsop for her secretarial help and advice.

## Notes

1. Unless otherwise stated for the purpose of this paper I will define this as including the self-employed and legally independent businesses that are not owned by a public limited company in the form of a branch plant or subsidiary.
2. For example, the Kingston University Small Business Research Centre has conducted a series of exploratory and long-term research projects in collaboration with private sectors organisations. Our relations with the Midland Bank are the best exemplification of this high level of interest.
3. Political economists from Marx to Galbraith (1972) have discussed with well founded explanations the demise of the entrepreneur and their anachronistic position in a modern capitalist economy.
4. The biggest exception to this is agriculture, where 57.5 of total employment is self-employed (See Table 2).
5. There are of course sub-sector differences. For example, in this group hotels and catering and retailing are projected to raise their employment levels to 2001 while transport in project to fall (Institute for Employment Research, 1995).
6. The self-employed are of course a mixed group: including labour only sub-contractors (in construction), those without and those with employees. The proportion in the latter category have fallen to about a quarter of all self-employed from around a third in the late 1980s.
7. Other forecasts on self-employment and business size are undertaken for example by Henly and Durham University (Fuller, 1994).
8. There are other projections about the future population and workforce implications (e. g. Hall and White, 1995) but unfortunately discussion on the implications for business ownership are absent.
9. Labour force projections are based on a series of assumptions which are subject to sampling errors and variations in economic activity rates. The labour force is defined as all people aged over 16 who are in employment or unemployed. The economic activity rate is defined as that part of the working age population which is in employment or unemployed. These can change under different levels of aggregate



demand as females have been more prone to dropping out and re-entering the labour force.

10. This age band may appear rather broad but it is dictated by the reported LFS data.
11. Research has shown a greater survival rates of businesses established by owner-managers with educational qualifications (Storey, 1994:129).
12. My colleague Professor James Curran discussed these issues in the first of this three lecture series (Curran, 1996).
13. See Curran and Blackburn (1994) for a more detailed discussion. The notion of industrial districts is difficult to envisage in Britain especially with the evident decline in community and local politics.
14. However, the last Labour Government often had policies which had implications for small scale activities. In 1977, it appointed the Wilson Committee to inquire into the role of the financial institutions and the provision of funds for industry including small firms.

- Granger B, Stanworth J and Stanworth C (1995) 'Self-employment Career Dynamics: The Case of 'Unemployment Push' in UK Book Publishing', Work, Employment and Society, 9, 3, 499-516.
- Gray C (1992) 'Small Business in the Big Market, Small Firm Owners' views on the likely effects of the Single Market', Small Business Research Trust Monograph, January, Small Business Research Trust, Open University, Milton Keynes.
- Hall R and White P (1995) (Eds) Europe's Population Towards the Next Century, UCL Press, London.
- Handy C (1994) The Empty Raincoat, Hutchinson. London.
- Harrison B (1994a) Lean and Mean. The Changing Landscape of Corporate Power in the Age of Flexibility, Basic Books, New York.
- Harrison B (1994b) 'The Small Firms Myth', California Management Review, Spring, 142-158.
- Hepworth M (1994) Small Firms in Croydon, Report to SOLOTEC, Mark Hepworth Associates, London.
- Hirst P and Zeitlin J (1989) Reversing Industrial Decline? Industrial structure and Policy in Britain and Her Competitors, Berg, Oxford.
- HMSO (1996) Competitiveness. Creating the enterprise centre of Europe, Cmnd 3300, HMSO, London.
- Howells J (1996) 'The European Dynamics of Computer Services', ESRC Centre for Business Research Working Paper 27, University of Cambridge.
- Institute for Employment Research (1995) Review of the Economy and Employment: Occupational Assessment 1995, Institute for Employment Research, University of Warwick, Coventry.
- Kay J (1995) 'Cracks in the Crystal Ball: Economic Forecasters Tend to Say the Same Thing at the Same Time, but They Rarely Get it Right', Financial Times, September 29.
- Keeble D, Bryson J and Wood PA (1994) 'Pathfinders of Enterprise. The Creation, Growth and Dynamics of Small Management Consultancies in Britain', Business Services Research Monograph Series 1, Number 3, Small Business Research Trust, London, September.
- Labour Party (1991) Opportunity Britain: Labour's better way for the 1990s, The Labour Party, London.

Lash S and Urry J (1987) The End of Organised Capitalism, Polity Press, Cambridge.

MacMillan K, Curran J and Downing S (1990) 'Government Consultations with Small Business Owners: Empirically Evaluating Communications Strategies', International Small Business Journal, 8, 4, 14-32.

Mayo E (1996) 'Dreaming of Work', in Meadows P (Ed) Work out - or work in? Contributions to the debate about the future of work, Joseph Rowntree Foundation, York

Meadows P (1996) (Ed) Work in - or Work In? Contributions to the debate about the future of work, Joseph Rowntree Foundation, York.

Meager N, Court G and Morallee J (1996) 'Self-Employment and the Distribution of Income', in Hills J (Ed) The Changing Distribution of Wealth and Income in the UK, Cambridge University Press, Cambridge.

North J, Curran J and Blackburn RA (1995) 'Small Firms and BS5750: A Preliminary Investigation', in Chittenden F, Robertson M and Marshall I, Small Firms, Partnership for Growth, Paul Chapman, London.

Perlmutter HV (1991) 'On the Rocky Road to the First Global Civilisation', Human Relations, 44, 9, 897-920.

Piore M and Sabel C (1984) The Second Industrial Divide: Possibilities for Prosperity, Basic Books, New York.

Ragab M (1991) 'The Business Environment of the 1990s: Implications for Entrepreneurship', Conference Proceedings of Enterprising in Partnership with the Environment, International Council for Small Businesses 37th World Conference, June, Toronto.

Rainnie A (1989) Industrial Relations in Small Firms, Small Isn't Beautiful, Routledge, London.

Rifkin J (1994) The End of Work: The Decline of the Global Labour force and the Dawn of the Post-Market Era, GP Putnam, New York.

Rosewall B (1996) 'Employment, households and earnings', in Meadows P Work out - or Work In? Contributions to the debates on the future of work, Joseph Rowntree Foundation, York.

Ross P, Hamilton D, Carter S and Burns H (1994) 'The Impact of Gender on Small Business Management: Preliminary Findings of a British Study', International Small Business Journal, 12, 3, 25-32.



Sabel C (1989) 'Flexible specialisation and the Re-emergence of Regional Economies', in Hirst P and Zeitlin J (1989) (eds.) Reversing Industrial Decline, Berg, Oxford.

Scase R and Goffee R (1986) 'Class Analysis and the Entrepreneurial Middle Class', in Curran J, Stanworth J and Watkins D The Survival of the Small Firm Volume 1, Gower, Aldershot.

Schumpeter J (1934) The Theory of Economic Development, Harvard University Press, Cambridge, Mass.

Stanworth C, Stanworth J and Purdy D (1993) Self-Employment and Labour Market Restructuring, Future of Work Research Group, University of Westminster, London, October.

Stanworth J, Blythe S, Granger B and Stanworth C (1989) 'Who Becomes an Entrepreneur?', International Small Business Journal, 8, 1, 11-22.

Storey D (1994) Understanding the Small Business Sector, Routledge, London.

White M (1996) 'The Labour Market and Risk', in Meadows P Work out - or Work In? Contributions to the debates on the future of work, Joseph Rowntree Foundation, York.

**Figure 1: Summary of Labour Force Projections to 2006 and Possible Outcomes for Small Firms**

Demographic Projection	Possible Outcomes	
	For Employers	For Business Ownership
Rise in female labour force	+	+
Rise in over 35s	0	+
Fall in under 35s	-	0
Increase in education levels of young people	-	+

Note: These are indications after a careful assessment of the negative and positive effects of the demographic projections and mark the detailed gross positive and negative effects. A plus (+) sign indicates that on balance the effects of the demographic projection will be positive and vice versa. A 0 indicates that on balance the effects of the demographic projection will be neutral.

**Figure 2: Models of the Economy and Implications for Small Firms**

	Flexible Specialization Model	Fragmentation Model
Market types	Niche, fragmented	Sub-contracted vertically disintegrated
Relations with large firms	Independent, inter-dependent	Dependent
Role of small firms/self-employed in economy	Central	Peripheral
Future role	Rosy	Uncertain

**Table 1: Projected Employment Change 1994-2001**

	Employment in 2001 (000s)	(Per Cent in 2001)	Projected employment change 1994-2001 (per cent)
Agriculture	533	2	- 3.4
Mining	80	0.3	-13
Food, drink and tobacco	506	1.9	- 3.6
Textiles and clothing	472	1.8	- 3
Chemicals	509	1.9	- 4.3
Metals and mineral products	288	1.1	-13.0
Engineering	1741	6.5	- 7.6
Other manufacturing	921	3.4	4.9
Utilities	172	0.6	-23.2
Construction	1546	5.8	1.2
Distribution, hotels etc	6121	22.9	11.7
Transport and communications	1369	5.1	- 2.6
Banking and business services	3124	11.7	24.6
Professional services	1498	5.6	20.0
Other services	1495	5.6	20.8
Public admin. and defence	1452	5.4	-10.8
Health and education services	4871	18.2	6.7
<b>Total</b>	<b>26698</b>		

Source: Based on calculations derived from Institute for Employment Research (1995).



Table 2: Composition of Self-Employed by Industry Group 1954-2001

	Share of Total Employment Per Cent						
	1954	1971	1981	1991	1994	1997	2001
Agriculture	34.4	42.2	44.1	49.9	52.0	54.5	57.5
Mining	0.1	0.3	0.6	2.4	4.2	3.9	2.8
Food, drink and tobacco	3.6	1.6	2.0	5.7	5.9	6.7	7.8
Textiles and clothing	2.9	2.5	3.5	6.5	6.6	7.5	8.4
Chemicals	0.8	0.5	1.0	2.2	2.2	2.2	2.2
Metals and mineral products	1.0	0.9	1.5	4.2	4.3	4.1	4.0
Engineering	1.2	1.0	1.6	4.0	4.4	4.9	5.5
Other manufacturing	4.6	5.3	6.6	15.7	15.6	17.1	19.2
Utilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	10.5	23.3	26.6	41.3	42.1	45.0	48.6
Distribution, hotels etc	18.8	18.0	15.6	14.9	14.8	13.8	12.6
Transport and communications	2.4	4.3	7.1	11.0	12.6	13.3	13.8
Banking and business services	9.9	10.3	9.7	14.5	15.0	15.8	16.8
Professional services	17.1	16.9	15.7	18.2	17.7	18.0	18.1
Other services	18.9	19.5	16.7	23.3	21.1	21.2	21.3
Public, admin. and defence	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health and education services	1.8	2.6	2.1	4.6	4.3	4.3	4.3
<b>Total Self-Employed</b>	<b>1899</b>	<b>2162</b>	<b>2263</b>	<b>3393</b>	<b>3282</b>	<b>3487</b>	<b>3718</b>

Source: Institute for Employment Research (1995): Table 2.5.

**Table 3: Projections of Total Self-Employed 2001**

	(000s)	(Per Cent)
Agriculture	307	8.3
Mining	2	0.1
Food, drink and tobacco	39	1.0
Textiles and clothing	40	1.1
Chemicals	11	0.3
Metals and mineral products	11	0.3
Engineering	95	2.6
Other manufacturing	177	4.8
Utilities	0	0
Construction	752	20.2
Distribution, hotels etc	771	20.7
Transport and communication	189	5.1
Banking and business services	524	14.1
Professional services	271	7.3
Other services	319	8.6
Public admin. and defence	0	0
Health and education services	209	5.6
<b>Total</b>	<b>3717</b>	<b>100.0</b>

Source: Based on calculations derived from Institute for Employment Research (1995): Table 2.5.